

## Message Text

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TAGS: ETRD, EEC, YO

SUBJECT: YUGOSLAVIA/EEC TRADE PROBLEMS

REF: A. BELGRADE 3236 B. EC BRUSSELS 5574 C. EC A-175

1. BEGIN SUMMARY: COMMISSION OFFICIALS ARE CLEARLY AWARE OF YUGOSLAVIA'S UNHAPPINESS ABOUT ITS TRADE RELATIONS WITH THE COMMUNITY. THEY ARE SYMPATHETIC AND WOULD LIKE TO HELP BUT ARE NOT YET CLEAR WHAT CAN BE DONE. THEY DO NOT BELIEVE THAT THE PROBLEM STEMS FROM COMMUNITY DISCRIMINATION. THE EC BEEF IMPORT BAN WAS WORLDWIDE, AND STIRRED UP COMPLAINTS FROM A NUMBER OF EXPORTERS, AS WELL AS THE US, WHICH HAVE RESULTED IN SOME EASING OF THE SITUATION. THE COMMUNITY BELIEVES YUGOSLAVIA HAS BEEN A PRIME BENEFICIARY OF ITS GENERALIZED TARIFF PREFERENCE SCHEME. END SUMMARY.

2. TO GET THE EC SIDE OF THE YUGOSLAV COMPLAINTS RE THEIR TRADE WITH THE COMMUNIST (REFTEL A), WE HAVE DISCUSSED THE ISSUE WITH COMMISSION OFFICIALS.

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THOUGH THEY RECOGNIZE THAT YUGOSLAVIA IS DIS-

SATISFIED WITH SEVERAL ASPECTS OF CURRENT COMMUNITY POLICY, THEY SEE NO BASIS FOR A VIEW THAT THE EC IS "DISCRIMINATING" AGAINST YUGOSLAVIA.

3. COMMISSION OFFICIALS WHO PARTICIPATED IN THE RECENT ORTOLI DISCUSSIONS WITH THE YUGOSLAVS SAID THE YUGOSLAVS MADE QUITE CLEAR THE SERIOUS PROBLEMS IN THEIR ECONOMIC RELATIONS WITH THE COMMUNITY AND THE CONSEQUENT POLITICAL IMPLICATIONS INVOLVED (REFTEL B). THE YUGOSLAVS STATED THAT RECENTLY THE YUGOSLAV TRADE BALANCE HAS DETERIORATED; IMPORTS FROM THE EC HAVE SOARED WHILE YUGOSLAV EXPORTS HAVE STAGNATED. THE COMMUNITY EXPLAINED THE SITUATION AS PRINCIPALLY DUE TO THE RECESSION. THE YUGOSLAVS MADE CLEAR TO ORTOLI THAT THE DETERIORATING TRADE BALANCE AND SPECIFIC PROBLEMS IN CERTAIN TRADE AREAS MADE NON-ALIGNMENT MORE DIFFICULT. THE COMMISSION GROUP CLEARLY GOT THE MESSAGE THE YUGOSLAVS ARE WORRIED THAT THEY CANNOT PURSUE POLITICAL NON-ALIGNMENT IF THEY CANNOT SECURE ECONOMIC INDEPENDENCE VIS-A-VIS EASTERN EUROPE. THE COMMISSION WAS SYMPATHETIC TO THIS MESSAGE BUT ORTOLI WAS NOT AUTHORIZED TO NEGOTIATE DURING THE VISIT. THE COMMISSION NOW BELIEVES IT MUST USE ITS IMAGINATION TO SEE WHAT CAN BE WORKED OUT WITHIN THE LIMITS IMPOSED BY THE NATURE OF THE EC/YUGOSLAV TRADE RELATIONSHIP.

4. COMMISSION OFFICIALS DO NOT BELIEVE THAT THE PROBLEM IS ONE OF DISCRIMINATION AIMED AT YUGOSLAVIA. THE 1974 BEEF IMPORT BAN BLOCKED ENTRY OF BEEF FROM ALL SOURCES, NOT JUST YUGOSLAVIA, WHICH FURNISHES LESS THAN A FIFTH OF EC BEEF IMPORTS. THE COMMUNIT HAS BEEN UNDER SEVERE PRESSURE FROM A NUMBER OF EXPORTERS TO LIFT THE BAN. THE US AS AN IMPORTER ALSO WAS CONCERNED. AS A RESULT, THE COMMUNITY HAS BEEN FORCED TO MAKE SOME SLIGHT IMPROVEMENT IN THE SITUATION (REF C). COMMUNITY IMPORTS OF BEEF FROM YUGOSLAVIA PRIOR TO THE BAN HAD INCREASED STEADILY FROM 1971 THROUGH 1973, THOUGH THERE WAS A FALL-OFF PRIOR TO THE IMPOSITION OF THE BAN.

5. ACCORDING TO COMMISSION OFFICIALS, YUGOSLAVIA IS THE SINGLE LARGEST BENEFICIARY OF THE COMMUNITY'S GENERALIZED LIMITED OFFICIAL USE

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TARIFF PREFERENCE SCHEME, FOLLOWED BY (2) HONG KONG AND (3) BRAZIL. COLANOVIC'S MENTION OF "THE EXCLUSION OF YUGOSLAVIA FROM THE GSP" MAY BE REFERRING TO THE SYSTEM OF PER-COUNTRY LIMITS CONTAINED IN THE EC SCHEME. WHEN THE COMMUNITY'S GSP SYSTEM CAME INTO EFFECT IN 1971 IT CONTAINED A PROVISION THAT IF ANY SINGLE COUNTRY FURNISHED MORE THAN 50 PERCENT OF THE COMMUNITY'S GSP IMPORTS OF A GIVEN COMMODITY THAT COUNTRY MIGHT CEASE DURING THE REMAINDER OF THE YEAR TO

OBTAIN GSP TARIFF PREFERENCES ON THAT COMMODITY. THE PROVISION IS NOT, HOWEVER, AUTOMATIC, NOR IS IT FREQUENTLY INVOKED. SUBSEQUENTLY, THE COMMUNITY HAS ON A NUMBER OF PRODUCTS LOWERED THESE PER-COUNTRY LIMITS DOWN TO 20 PERCENT, THOUGH THEY REMAIN 50 PERCENT FOR THE VAST MAJORITY OF PRODUCTS. (PER-COUNTRY PRODUCT LIMITS CONTAINED IN THE COMPETITIVE NEED FORMULA OF THE US GSP SCHEME, WHICH WILL PRESUMABLY GO INTO EFFECT LATER THIS FALL, ARE \$25,000,000 OR 50 PERCENT OF TOTAL IMPORTS FROM GSP BENEFICIARIES.) IN BOTH THE US AND THE COMMUNITY SCHEMES THE PURPOSE OF THE PER-COUNTRY LIMITS IS TO PROVIDE FOR AN EQUITABLE BENEFIT SHARING FOR ALL BENEFICIARIES, BY RESTRAINING CERTAIN "PRIVILEGED" LDCS, WHICH ARE MOST COMPETITIVE. YUGOSLAVIA, AS A RESULT OF BEING THE PRIME BENEFICIARY OF THE COMMUNITY'S GSP SYSTEM, HAS RUN UP AGAINST THESE PER-COUNTRY PRODUCT LIMITS MORE OFTEN THAN ANY OTHER COUNTRY, 14 TIMES IN 1972, 19 TIMES IN 1973, AND THE ESTIMATE FOR 1974 IS APPROXIMATELY 25 TIMES, THIS IS SOMEWHAT MORE FREQUENT THAN THE EXPERIENCE OF HONG KONG, THE NEXT IMPORTANT BENEFICIARY. GREENWALD

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